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Individual Investor
AstroPower: Converting Sunlight into Earnings

Senior research analyst: Luciano Siracusano (06/12/00) From January to March, the so-called ``fuel cell'' stocks challenged fiber optic and biotech issues for most favored equity status among momentum investors.

The stocks of companies like Plug Power (NASDAQ:PLUG - news), SatCon Technology NASDAQ:SATC - news), Ballard Power Systems (NASDAQ: BLDP - news), and that Queen of the pink sheets, DCH Technology (OTC BB:DCHT) , registered returns in eight weeks that most Old Economy stocks need the better part of a decade to match.

What makes AstroPower (NASDAQ:APWR - news) an interesting member of that jet set is that it is the only name in the group to actually post profits.

After being bludgeoned for the better part of three months, fuel cell stocks are starting to warm up again, and not surprisingly, AstroPower is drawing a lot of the heat.

Last Thursday, Robertson Stephens initiated coverage on the company with a buy recommendation. The new institutional interest and some apparent short covering sent big blocks of stock across the tape on Friday, pushing the shares up more than 15% on double the normal volume to close at $25.

Although its shares can clearly trade with the best momentum stocks, it is AstroPower's growth prospects that ultimately make this a compelling story.

AstroPower is currently the largest American-owned solar electric power component manufacturer in the U.S., and the fourth largest in the world. The company develops, markets and sells photovoltaic ``PV'' solar cells, modules and panels that help convert sunlight into electric power.

Solar cells, modules and panels have a wide range of applications, from providing electricity to rural regions, to powering telecommunications base station in remote areas, to heating residential homes and charging the batteries of cell phones and other portable devices.

The company has been growing its top line at 50% per annum for the past three years. In 1999, AstroPower recorded $2.3 million in net income, or $0.22 a diluted share, on $34.6 million in revenue. In its most recent quarter, the company reported that earnings per diluted share tripled to $0.09 on a 46% jump in revenue to $10.4 million.

AstroPower, which commands about 6% of the global solar power market, estimated to be roughly $700 million, has been growing faster than the industry as a whole.

The company derives about 75% of its sales overseas. In Germany and Japan, the public desire to find more independent and environmentally friendly forms of energy has led to quicker acceptance of solar power as well as government incentives to encourage such use.

However, evidence is mounting that more of this ``grid-connected'' business is ready to migrate to the United States.

After years of hearing about the prohibitive costs of solar systems, consumers may well be on the verge of a large shift in behavior. AstroPower believes that deregulation of the utility industry and financial incentives from government are poised to increase demand for residential rooftop systems and for small commercial solar systems over the next few years.

Some 30 U.S. states, for example, have instituted ``net metering'' rules, whereby consumers can sell excess electricity to the utility during the day at the retail price, and then buy back that power at night. In New York State, homeowners can receive a state tax credit of up to $3,750, get a guaranteed connection to the local grid, and resell surplus electricity to the utility company.

This is a significant economic driver for solar power systems.

With the de-regulation of the utility industry, consumers are expected to buy more back-up supplies of electricity as power outages increase, especially on the edges of the new distribution systems. Solar energy helps meet this ``back-up'' supply, while giving consumers a way to reduce overall energy costs by generating their own source of power.

Allen Barnett, the company's president and chief executive, fleshed out some of the market opportunities for his company in a May interview with The Wall Street Transcript. He estimates that the potential market for paneling residential rooftops in the U.S. is at least $10 billion per year. He sees the solar-charged battery market rising to as much as $5 billion, and believes products the company is currently developing for this market could add as much as $200 million in revenue by 2004.

Current share profit estimates, based on AstroPower's core business, call for the company to earn $0.43 in 2000 and $0.67 in 2001.

Before Friday's run-up, the stock was attractively valued, trading at a discount to its long-term growth rate. But at $25, there is more limited appeal in the short-term.

However, investors with a longer-term horizon may see AstroPower as a relatively low risk play on the speculative alternative energy sector.

With some $23 million in cash and only $1.4 million in long-term liabilities, the company is in decent financial shape. Although AstroPower's management of its working capital should give investors reason to pause - the company was cash flow negative on an operating basis in its most recent quarter, despite net profit growth - we are willing to accept that days sales outstanding have peaked in the 140 to 150 day range. This number is likely to shrink in the coming quarters as a greater percentage of revenue is generated in the U. S., where accounts receivable are more quickly collected.

Bottom Line:

It would be naïve to believe that fuel cell stocks don't have another rally left in them this year. When that move occurs in earnest, AstroPower presents one way to ride the wave, without skimping too much on the fundamentals.

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